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ISSN: 2744-5178
Monday 11 July 2022
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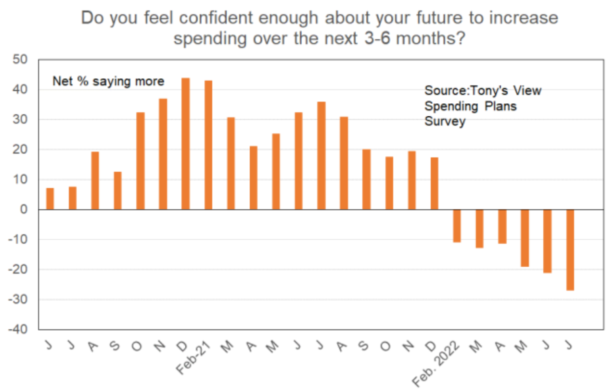
Consumers even more reluctant to spend

This month' survey of the over 27,000 subscribers to my weekly Tony's View publication yielded 959 responses. The main result is a further deterioration in the plans people have for buying things over the next 3-6 months. This includes a pullback in intentions of undertaking international travel (though still net positive) and record low plans for purchasing a house to live in or as an investment. But plans for buying shares have lifted, and there has been an interesting improvement (less negative) in intentions of spending on home renovations.

Retailers can look through the results to gain insights into their particular sector. For borrowers there is good news, as has been the case since our first survey for 2022 undertaken in February. The Reserve Bank needs to see consumer spending being crunched to feel confident that monetary policy tightening is working. Our survey says it is and this is a further sign that additional rises in mortgage rates from current levels will be minor and largely confined to the floating and up to one year terms.

Do you feel confident enough about your future to increase spending over the next 3-6 months?

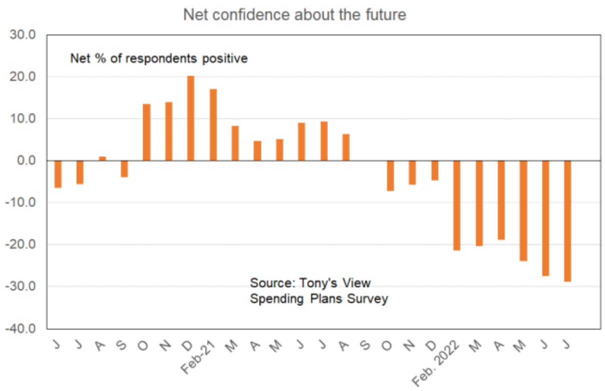
A record net 27% of people say that they plan reducing their spending on things generally over the next 3-6 months. This is a deterioration from a net 21% last month, 11% in February, and positive 17% spending intentions in December.



Household budgets are being pressured by the hike in the cost of living, rising mortgage rates, falling asset wealth, and crunched profits for business owners hit by shortages of staff and materials.

The confidence which people have for the future has worsened to a net 29% pessimistic compared with a net 20% optimistic at the end of 2020 and 5% pessimistic at the end of 2021.

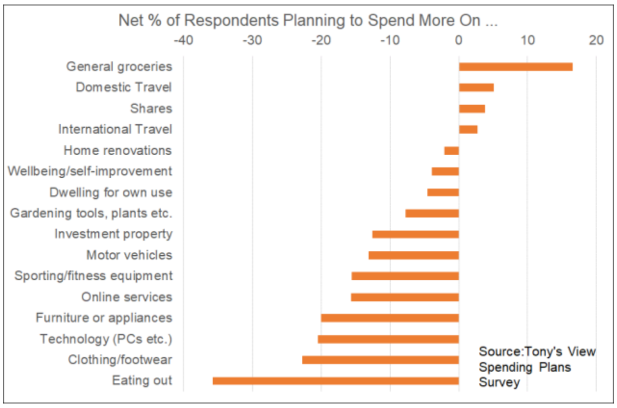
Note the decline in sentiment in the middle of last year coincident with mortgage rates rising and inflation hitting 3.3%. The next big change came at the start of this year as house prices started falling, reports of the credit crunch became more frequent, and inflation hit 5.9%.

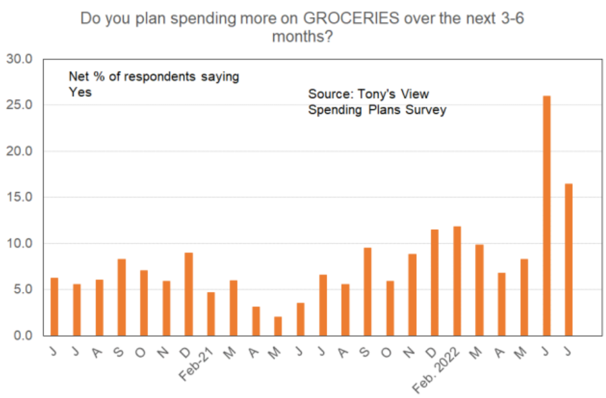


Where will people spend more?

We ask people what things they plan spending more on and what they plan spending less. From those responses we can calculate net purchasing intentions for the categories we cover and the results for this month are shown in the following graph.

A net 17% plan spending more on groceries – clearly out of necessity. The only other areas of positive spending plans are domestic and international travel, and shares. Strong reductions are planned for spending on eating out – another challenging factor for a sector which as things stand cannot even find the staff to service the decreasing number of Kiwis using their services.

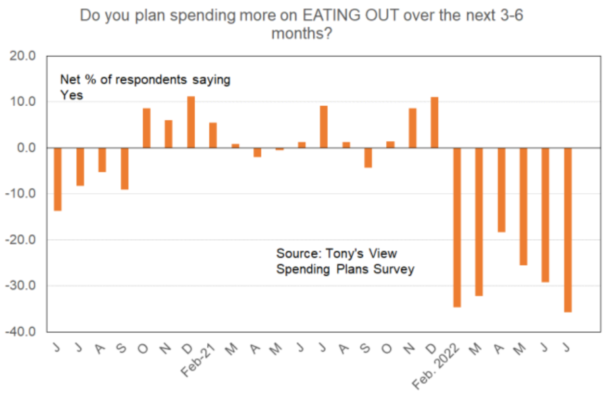




Focussing in on some of the other individual categories we can note the following.

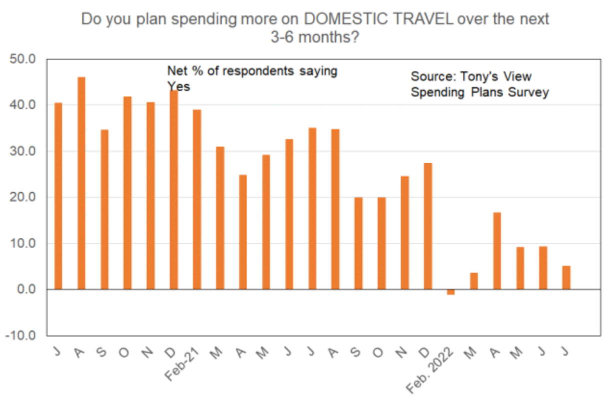
Eating out

A record net 36% of people plan to reduce their spending on eating out. This sector has been crunched since the very start of the year and as yet no improvement is in sight. Come summer we can expect some improvement as international tourists return, and perhaps by then the better cost of living outlook will allow some stepping back towards the hospitality sector once more.



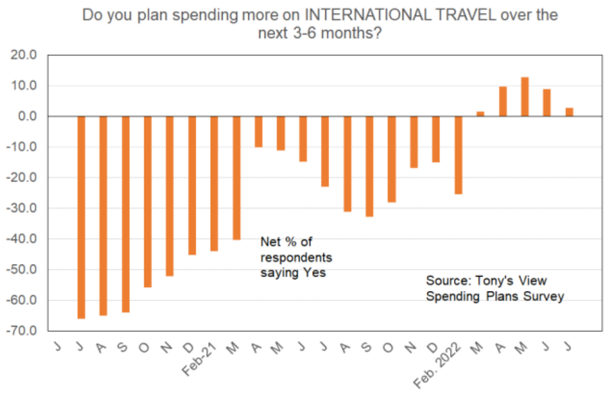
Domestic travel

A net 5% of people plan spending more on domestic travel in the next 3-6 months. This is down from 9% last month and the weakest result since March. The surge in plans in April looks to have been a one-off blip and the trend here remains downward.



International Travel

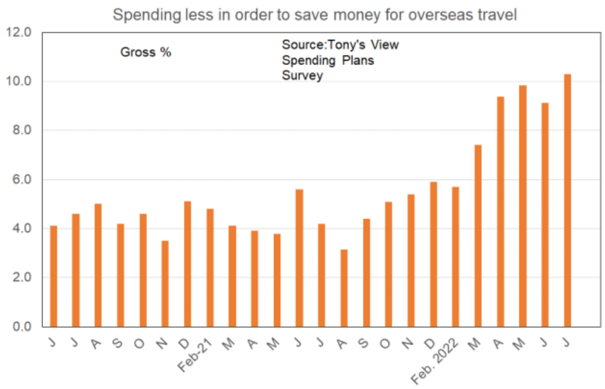
We may have passed the peak in immediate plans for going overseas. Only a net 3% of our near 1000 respondents plan raising offshore travel spending in the near future, down from 9% last month and 13% in May.



A number of factors are likely to be contributing to this shift including horror stories of cancelled flights and lost bags because of staff shortages offshore, staff shortages in New Zealand making checking in a very lengthy process, rising airfares, the rising cost of living, falling asset prices, rising interest rates, and perhaps the immediate border reopening jump for freedom need having already been met for many people.

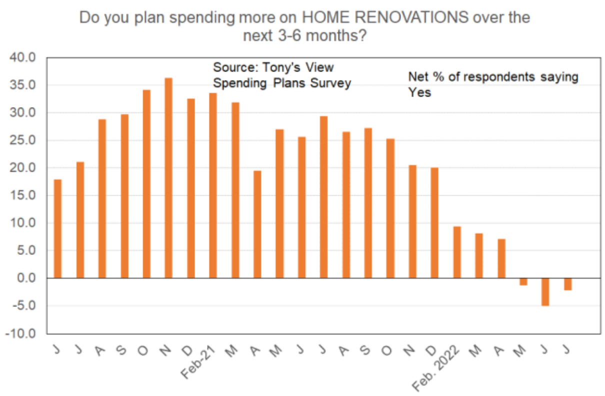
The main factor is likely to be constrained household budgets.

But we should be wary of reading too much into this result as yet. There is still a rising proportion of people saying they are spending less in other areas in order to provide funds for offshore travel.



Home renovations

For the third month in a row we have recorded net negative intentions of spending more on home renovations.



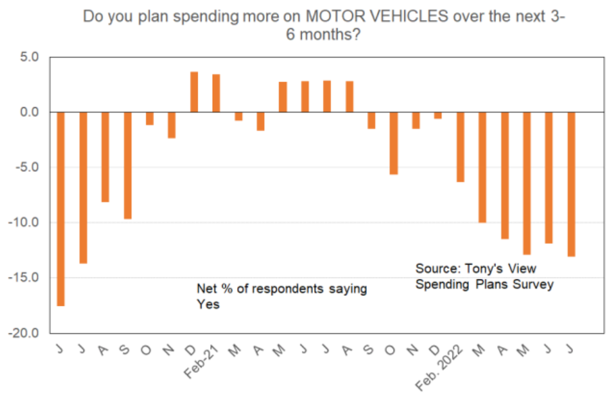
In the context of spending in this area naturally pulling back after a pandemic binge, these last three results are actually reassuring for operators in the industry. Unlike the hit about to taken by the home construction sector for a wide variety of reasons, for home renovations things are not so bad. In fact, given that there will be many people who want to get renovations done but have not tried to because of widely reported shortages of tradespeople and materials, retreating house building may encourage them to step forward later this year and through 2023.

This will be an interesting sector to watch.

Household durables

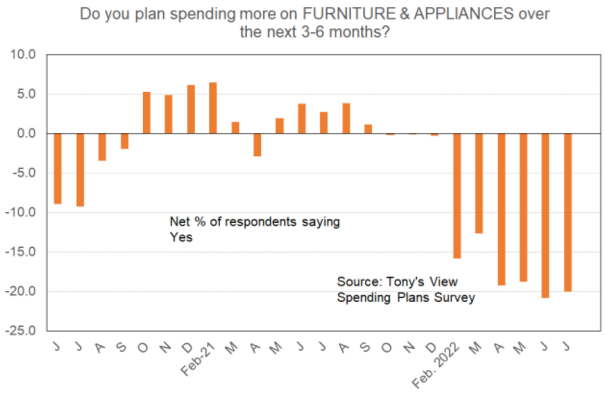
With consumer confidence at a record low according to one long-running survey, we have to expect that people are going to pull back their spending on things which can be purchased at a future date. This is what people are clearly signalling across the range of things we gather here into our durables category.

A net 13% of people plan spending less on motor vehicles. This is almost as bad as during the early days of the pandemic before the flush of money effect kicked in.

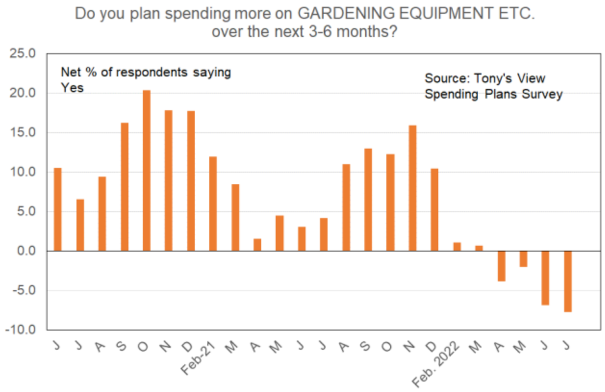


For spending on furniture and appliances things are much worse than back then even. This will be a sector worth keeping an eye on. With some retailers likely to soon be running excess inventory levels and with falling energy costs in China perhaps allowing some cheaper production over there to eventually reach our stores, watch for falling prices in this sector. This is a key factor which will assist the eventual shift in monetary policy thinking towards the 2023

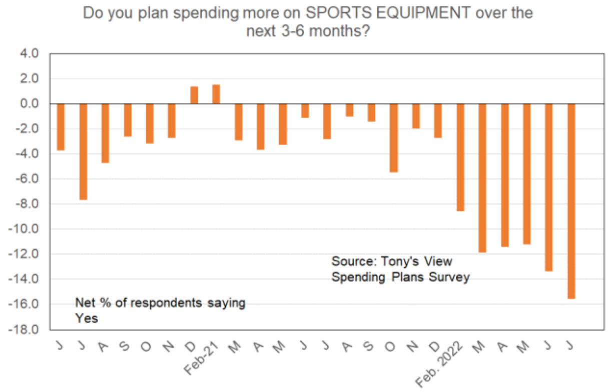
easing rather than the current focus which is almost all on tightening.



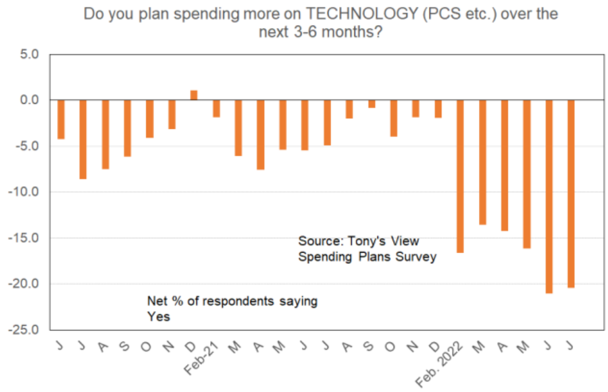
There is a winter effect which runs through plans for spending on gardening. Nonetheless, things this year look a lot worse than last year and one suspects there will be some mass-produced plants going on special as spring approaches. It could be a good time to plan some larger than normal conversion of a part of one's land back to natives.



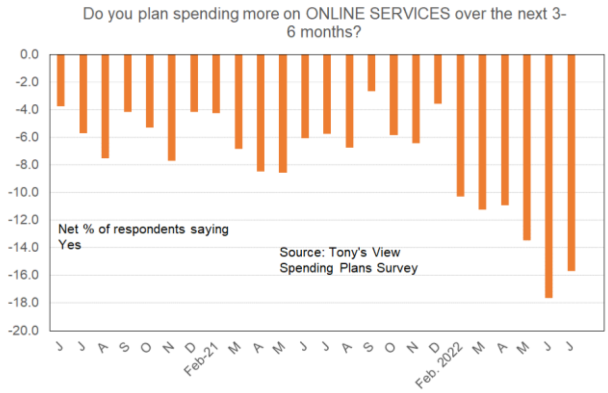
The graph says it all for spending plans on sports equipment. Note the reports which emerged just this past week regarding a surge in people selling home exercise equipment on Trademe.



And the home technology binge is well and truly over.

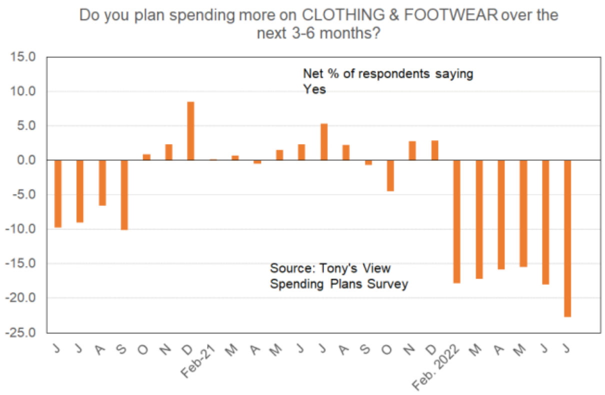


Coincident with this decline, note the worsened outlook for the online services sector.



Clothing and Footwear

This sector is a mixture of essential and discretionary spending. Whatever way one looks at it, our plans for buying clothes and shoes have weakened anew.

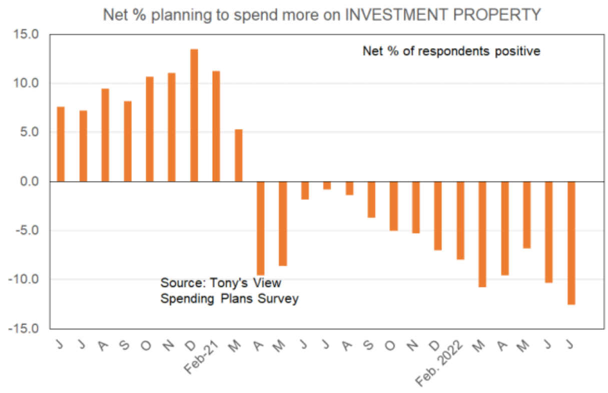


Housing indicators

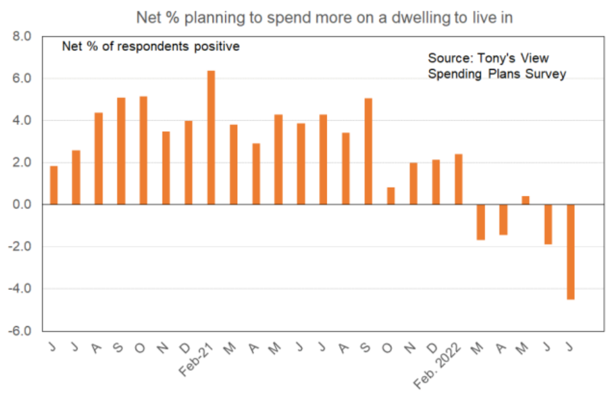
There are two housing spending options included in my monthly Spending Plan Survey. The first is regarding people's plans to purchase or not purchase investment property. The results nicely validate results from my more specific housing surveys which showed a backing away of investors as soon as the tax changes were announced on March 23 last year.

This month a net 12.5% of respondents have said they plan purchasing less investment property. This is a record low and tells us that lower prices for growing one's residential property exposure are not attractive enough as yet to elicit investor interest. Hence my criticism of talk that just because some lenders have pulled back their two year fixed mortgage rates the housing market will soon turn upward again. No, there is more downside to come. But to repeat my main comment in that regard relevant to young buyers. Stay engaged in the market, note rising listings, find three properties which interest you, make low offers and get the seller's agents to work on your behalf (for free) to convince the vendor to accept your low-ball offer.

Still, you do need access to a mortgage for that and courtesy of both the Reserve Bank and Government, you will be struggling to in fact get that funding as the credit crunch has returned again.

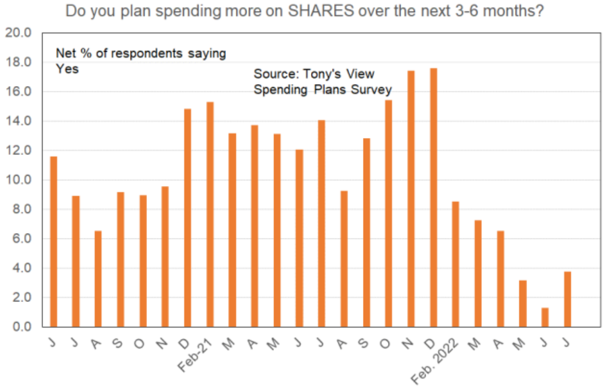


To whit, this month a record net 4.5% of people have said they plan cutting spending on a new (or existing) house to live in. There is no good news here for real estate agents or those involved in property development. Buyers continue to back away.



Shares

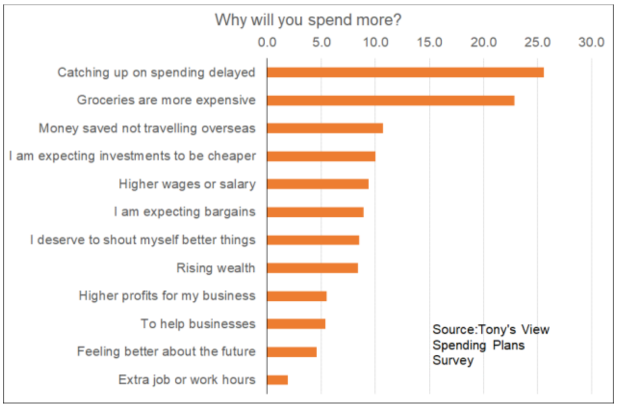
I feel this graph bears looking at for a while. It shows a lift in the net proportion of people planning to purchase shares. That stands in contrast to the decline in plans for buying investment property. Both assets have fallen in price. But whereas there are strong expectations that house prices will continue to fall, that is not necessarily the case for shares. And another factor in play here is that access to credit has a big impact on house purchases but is minimally relevant for any individual's plans for purchasing shares.



Why do you plan spending more or less?

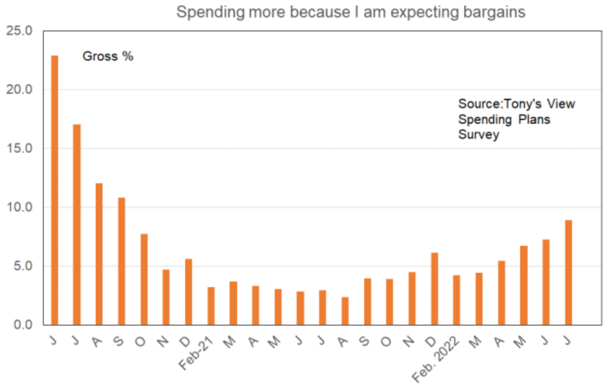
Each month I like to examine the reasons why people indicate they might spend more or less, to see if there are some interesting outcomes which might be useful to businesses and even policy planners. Ranked by importance the reasons look as follows.

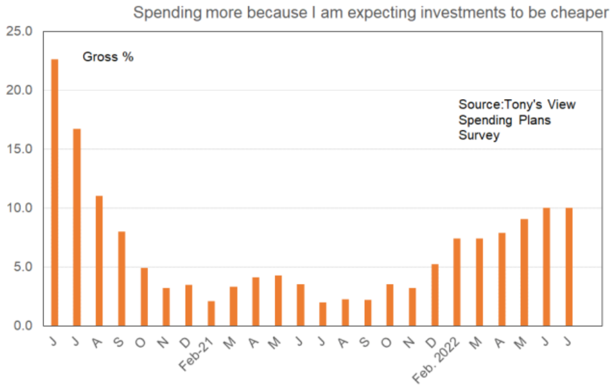
This month I included the option of "Groceries are more expensive". It ranks second after catching up on spending delayed.



But as an economist, frankly, these static results don't usually interest me much. It is the trends and the changes at the margin which matter. That is where economics lives and in that regard we see the following.

Only two reasons for spending more (excluding groceries) are trending up – "I am expecting bargains" and "I am expecting investments to be cheaper".

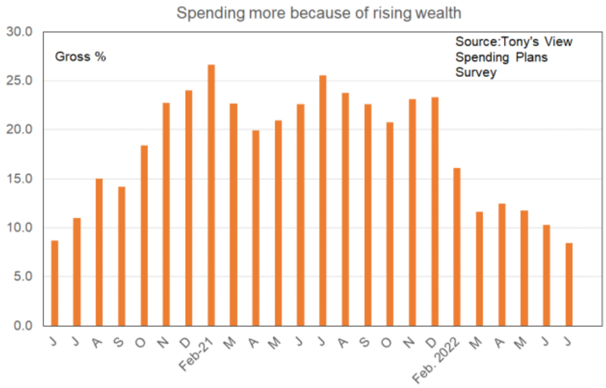




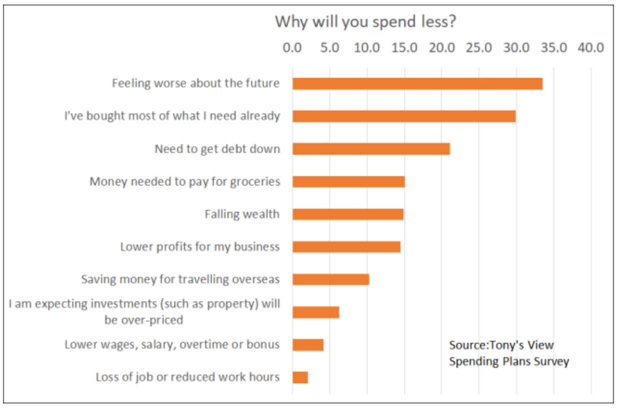
I have included the above two graphs to emphasise that not everyone is feeling dour and not everyone is cutting spending and planning to leave the country. People make the mistake of believing hard times for some mean hard times for all.

Only one-third of NZ households have a mortgage and plenty of people know that when the number of headless chooks running around the yard is near a peak, that is the optimal time for buying something as prices will be cheap and owners/vendors amenable to negotiation.

Note that the proportion spending more because of rising wealth is falling. This is not the same thing as counter-cyclical purchasing.

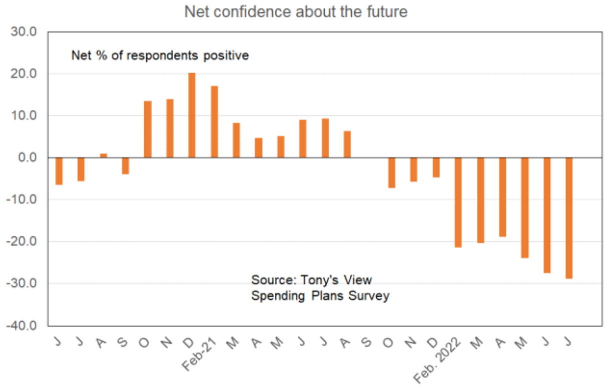


I also ask people why they plan spending less in general. Poor confidence about what the future holds is the biggest factor behind wallets and purses being closed.

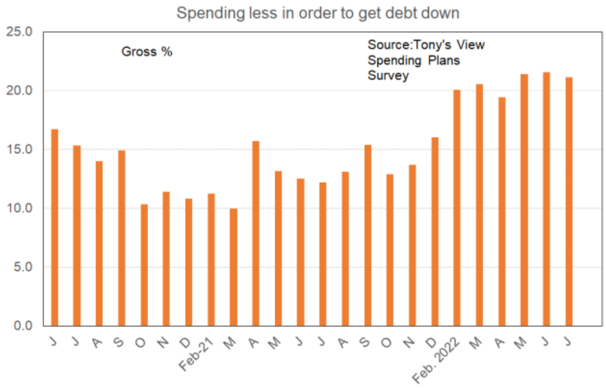


But this poor confidence is always based on fundamental factors which tend to turn down before the despondency sets in. The reverse happens on the way up. Some solid factors will be encouraging people to spend more down the track some time before the degree of despondency lessens.

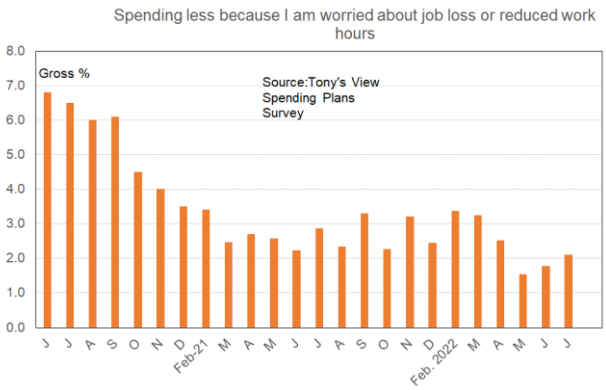
This graph shows a calculation of net confidence about the future.



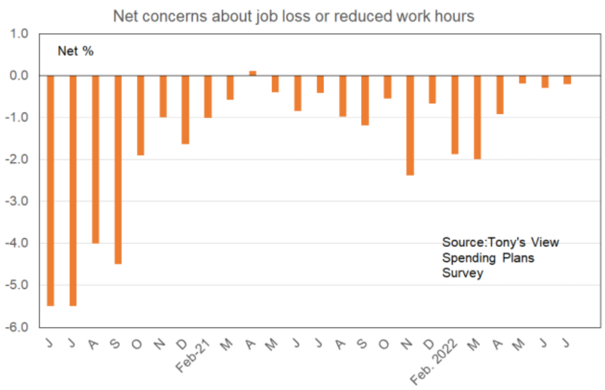
A gross 21% of people say they are spending less in order to get debt levels down. But there has been no upward trend in this measure since February. No new interest rates shock is running through the economy.



As yet there is no great sign of people cutting back on spending because of wage income fears.



In fact, we can create a net employment concern measure which shows no deterioration underway. Job security is a supporting factor for this downturn in our economy.



Respondents to the survey were distributed by age as follows.

< 30 years	6%
31 – 50 years	32%
51 – 65 years	41%
Over 65 years	21%

Distribution by region was as follows.

Northland	2.5%	Tasman	1.3
Auckland	42.6	Nelson	1.4
Waikato	8.0	Marlborough	1.2
Bay of Plenty	8.7	West Coast	0.1
Hawkes Bay	2.6	Canterbury	11.4
Taranaki	0.7	Queenstown	2.3
Manawatu-Wang.	2.8	Otago ex. Q'twn	3.4
Wellington	9.3	Southland	0.6
Gisborne	0.2	Other	0.9

Total responses = 959

TONY'S VIEW
Spending Plans Survey

Links to publications

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